

Governor Dave Heineman

State of the State Address
January 11, 2007

One-Hundredth Legislature
First Session

“We have the opportunity to make Nebraska an even better place for our sons and daughters, and their families. To accomplish this, we must act decisively and face the challenges that lie ahead.”

- *Dave Heineman, Governor*

Mr. President, Mr. Speaker, Members of the 100th Legislature, Tribal Chairmen, Distinguished Guests, Friends and Fellow Nebraskans:

This is a year of new beginnings. In the days and weeks ahead, we will work side-by-side in an effort to determine what sort of state the next generation of Nebraskans will inherit. Today, we embark on a journey that will reshape the future of Nebraska. I submit to you that we must act boldly with a vision of the future firmly in mind if we are to change our state for the better.

Our vision for the years ahead must be about preparing Nebraska to compete in the 21st Century, in an age of technological marvels, new educational challenges, international competition and entrepreneurial opportunity. That is the new reality facing the people of this state.

I want to first address the senators of this 100th Legislature.

To the returning senators, I appreciate the cooperation we have fostered, and I want to express the value I place on that relationship. The members of this distinguished institution have had an important impact on our state, and while there is no way to recognize all of you individually, let me say that I am pleased to be able to continue working with you.

To those Senators who are new to this body, I want to share with you that my door is always open. I look forward to hearing ideas from you and your colleagues on ways to continue improving our state.

One reason that I am so enthusiastic about this legislative session is because of the opportunity it presents to combine both the institutional knowledge of returning Senators and the fresh perspectives of our newest colleagues. We should capitalize on the opportunities that this combination presents, because our state is truly at a crossroads.

We have the opportunity to make Nebraska an even better place for our sons and daughters, and their families. To accomplish this, we must act decisively and face the challenges that lie ahead. Creating dynamic 21st Century jobs must be a priority.

We can no longer afford to ignore the fact that many talented young people are leaving our state to begin their careers in other states and other countries. That is why I believe so strongly that education and Nebraska's continued economic vitality go hand-in-hand.

We must act now to address the high tax burden on middle-class Nebraskans, small business owners, and would-be entrepreneurs. We must act now to address the need for a more reasonable and sustainable growth rate of government spending. We must act now to address the challenges of education, education funding, and student achievement. We must act now to address the statewide challenges of water, and we must act now to create a more logical and accountable organization for Health and Human Services.

Despite the scope of these challenges, I am optimistic that the ability to overcome each and every one of them is well within our reach. Together, we can and will address our state's greatest challenge, which is creating jobs for young people here in Nebraska.

We're already on the path to success thanks to the Nebraska Advantage, which in one year has encouraged 89 companies to consider Nebraska for locating or expanding their business. Over the next several years, these companies are planning to invest \$3.5 billion in Nebraska's economy and create nearly 9,000 new jobs.

The new chapter we've begun in ethanol and biofuels development has also helped put our state on the right path. Nebraska currently has more ethanol plants under construction than any other state, and communities of every size are poised to benefit from this latest wave of ethanol expansion. In the next two years, new ethanol plants will come online in communities such as: Adams, Albion, Cambridge, Fairmont, Jackson, Madrid, Mead, Ord, and Ravenna.

These communities will be the home of some of the most innovative and technologically advanced ethanol plants anywhere. Rural Nebraska has not seen an era of such sustained job growth in decades, and we can be very proud of the role our state has in helping provide cleaner, better fuels for our nation. These are just two areas where the hard work of lawmakers has paid dividends for the people of this state.

Therefore, I approach this session with optimism that we can find solutions to the challenges before us. But we must first address the disproportionate tax burden that has been placed on our citizens.

By any standard, Nebraska is a high-tax state, and while the results vary, studies show Nebraska with a tax burden as high as sixth in the nation. Our rankings have steadily declined over the past two decades, and look even worse when compared to neighboring states. I believe this is a situation we can change.

I believe we can compete, but in order to do so we must be committed to easing the tax burden on Nebraskans and their families. Stopping and reversing a decades-old trend toward a greater tax burden is essential to ensuring good job growth in the future.

Ensuring that businesses can create good jobs requires a determined and sustained commitment to lowering taxes and controlling state spending. Lower spending requires that we begin to make strategic investments in a new and vibrant future, rather than providing funding for every project with merit.

Making a fundamental change in the way we structure our income tax system is the first step in ensuring that our state continues on our journey toward becoming a more vibrant place for every Nebraskan. The tax relief package I'm proposing would provide more than \$475 million dollars in reductions over the next two years aimed at hard-working, middle-class families.

My interest in lowering taxes has two objectives; continuing to create the jobs our sons and daughters want, and in helping to protect the dreams and ambitions of Nebraska's middle-class families.

I want to thank Senator Ray Janssen for agreeing to introduce my proposal, which would: eliminate the marriage penalty, reduce the number of income tax brackets from four to three,

widen the bracket that impacts the largest number of middle-class taxpayers, lower tax rates across-the-board, index the new brackets, repeal the remainder of the sales tax on construction labor, and eliminate the estate tax for family farmers and small business owners.

Under my plan, a family of four earning \$50,000 a year would receive a tax cut of \$227 dollars, or a 20 percent reduction in income taxes. A family of four earning \$75,000 dollars would receive a tax cut of \$504 dollars, a reduction of nearly 19 percent.

I encourage anyone with an interest in reducing taxes to also be committed to the need to rein in state spending. Our residents are willing to make difficult spending decisions, and we should be equally committed to that idea.

The two-year budget being introduced today is a conservative and responsible plan that restricts state spending growth to an average of 3.8 percent over the next two years. That is a far more reasonable and sustainable growth rate than the 5.4 percent average seen over the past decade

My budget proposal provides significant tax relief, and yet it maintains the cash reserve at a robust level of nearly \$400 million dollars. We accomplished that by casting a critical eye on every budget request.

A recent newspaper editorial said it plainly: “It takes persistent frugality and priority-setting by taxpayers, as well as by elected officials in their spending, to hold down tax bills.” I could not agree more.

We analyzed the baseline budget of every single agency in state government, from those in the Nebraska Health and Human Services System to cash-funded agencies such as the Nebraska Racing Commission, and in many cases we re-set the budgets of state agencies that had a history of spending less than their cash appropriation authority.

Our goal was to develop a budget that more closely reflects the needs of our state while achieving legitimate savings without impacting the quality of services.

This budget is also a realistic reflection of the competing interests for state funding. It very clearly shows the impact some of our largest expenditures have on funding for other programs.

Our obligations to fund Medicaid and the state aid to education formula represent more than 60 percent of the new money spent in this budget. However, the good news is that Nebraska’s Medicaid Reform efforts are having some success in slowing the growth of that program. For this two-year budget Medicaid growth is less than 2.5 percent, yet more efforts to contain costs are needed for our state to thrive in the years to come.

My budget makes the education of our children a priority by providing an additional \$171 million dollars to fully fund the state aid to education formula. However, that commitment means that state aid to education will grow by more than 5 percent in the first year and by more than 12 percent in the second year of the biennium. That single investment represents 49 percent of the increased funding in this two-year budget.

This budget makes a significant investment in property tax assistance, providing more than \$2 billion dollars in relief to schools, cities, counties, and local units of government.

We must ensure that our citizens understand that any new state spending on state aid to schools and aid to local governments has the effect of increasing state spending. Those efforts are a tax shift, not a tax cut. Real property tax relief comes from controlling spending at the local level.

If we are serious about achieving real property tax relief in this state, we need to engage our citizens in a discussion about local spending.

This budget is a concerted effort to control state spending, and I am going to share its message of restraint with local leaders and encourage them to follow our example. If we increase state spending for property tax assistance, we should do so with the honest understanding that the end result is a tax shift.

We need to be straightforward with the citizens we serve, and controlling spending is the only way to lower the amount of taxes we pay. The conversation we need to have as a state is whether we are willing to accept the status quo or whether we want to do something bold in order to prepare our state for the future. Nebraskans deserve better than the status quo.

Governing in the future will require state and local governments to work more closely together to restrain spending. I hope that here at the state level, we can lead by example and pass a budget that restricts spending to the amount I've proposed. While we may differ in the details of what this budget should include, I hope that we can agree on this number as our overall spending target.

Let us not forget that the voters who rejected the state spending lid in November did so not out of hopes for unrestrained state spending, but out of reverence for the Nebraska constitution and respect for the institutions we have been elected to lead. The voters of this state have given us the opportunity to show them that we can deliver on our promises, and I am confident that we can rise to the occasion.

A restrained budget has its priorities, and mine highlights education and the economic vitality of Nebraska. Approximately 17 percent of the state budget or more than \$580 million dollars will go to higher education, for the University of Nebraska, our community colleges, and state colleges. The University in particular will receive an additional \$20 million dollars in state spending over the next biennium.

We also need to do a better job of planning ahead for the challenges that await us. Despite our ethanol success story, Nebraska has a funding gap we need to address. In order to meet the expected shortfall in the Ethanol Production Incentive Cash Fund, I am proposing that we invest another \$15.5 million dollars in general funds, and extend the current corn check-off through 2012.

We must also address our water challenges. We cannot wait for a federal judge to decide our fate in the Republican River Basin, and we need to act now to plan for the challenges of

implementing the Platte River Cooperative Agreement and LB 962. My budget proposes the establishment of a new Water Resources Cash Fund to begin saving money for an issue that may well last longer than a decade. I am proposing that we set aside \$2.7 million dollars in general funds each year over the next 12 years, in addition to seeking \$300,000 each year from the Nebraska Environmental Trust and \$1 million dollars a year in federal funds for conservation programs.

This proposal would require natural resource districts to work with the state in providing regulation needed to help meet our obligations. I am also proposing that farmers be part of the solution by extending a half-cent of the current corn check-off, beginning in 2013 and channeling those funds into the Water Resources Cash Fund.

We also are continuing our work to make government more efficient and more effective. My priority is the restructuring of the Health and Human Services System, and I appreciate the leadership of Senator Joel Johnson for being willing to carry this proposal forward. I am seeking expedited approval from the Legislature so that we can be ready to implement the changes by July 1.

A key goal of that proposal is the creation of a separate Department of Children and Family Services, the prioritization of improvements to the Foster Care and Child Welfare Systems, and creating a more transparent, more accountable and more accessible Health and Human Services System led by a single CEO and six department directors.

The second agency in need of restructuring is the Nebraska Department of Revenue. We need to bring the Property Assessment and Taxation division back into the fold. We need the new structure to enable our leadership team the flexibility for additional change, and I would like to thank Senator Cap Dierks for agreeing to lead this initiative.

Another set of challenges we must confront involves both rural and urban education. I have confidence that we will confront these challenges with fairness and equality, as well as a respect and recognition that in education, one size does not fit all. We need to respect the will of the voters and create the opportunity for Class I school districts to exist, where Nebraskans want the option. We must also work together on improvements to LB 1024, with a focus on student achievement.

We need to ensure that our best teachers are placed in the most challenging schools, and we need to provide them with the training to help prepare them for the challenges of teaching in an environment that is increasingly diverse, both economically and ethnically. I want to applaud the efforts of the Omaha metropolitan area superintendents and the continuing work of Senator Ron Raikes and Senator Ernie Chambers on this issue. We need to resolve this issue during this legislative session.

In Omaha and across Nebraska, we also need K-12 schools to work creatively to increase parental involvement and to foster a clearer sense of parental responsibility, neither of which require additional funding.

We need parents more involved in their children's education, and we need to dispel the myth that the need for parental involvement decreases as students get older. We also need to make sure parents understand their own personal responsibility to have their children prepared academically to attend and succeed in school at age five and every day thereafter.

A major challenge facing higher education centers on improving our college attendance rate, which is essential to a prosperous Nebraska, and I applaud University of Nebraska President J.B. Milliken for his willingness to join with me in attempting to address this issue.

A five percentage point increase in that rate would place Nebraska among the top five college attendance rates in the country. To that end, my budget proposes a \$1 million dollar annual increase in need-based aid for Nebraska college students, a general fund increase of more than 17 percent.

I am also proposing a dramatic increase in the tax deduction for parents using the Nebraska College Savings Plan to save for their children's college education. I am proposing that we increase the maximum annual tax-deductible savings to \$10,000, and I am very pleased that Senator Tim Gay has agreed to introduce that proposal.

Members of the Legislature, I have tried to address the major challenges confronting our state in this budget, and my focus is on results.

Today, I am asking all Nebraskans to join with me in putting an emphasis on lowering taxes and restraining government spending in order to secure a more prosperous future for the next generation of Nebraskans. I am asking all Nebraskans to sacrifice today for the long-term best interests of our state.

To Nebraska's business leaders, I would ask for your help in accomplishing this task. Over the past two years, we've passed a comprehensive tax incentive package that stimulates the economy, and we're proposing real tax relief for the middle class, along with fundamental tax reform, and the repeal of the estate tax. This is not the year for additional business incentives.

To Nebraska's teachers, school administrators, and school boards, I am seeking your assistance, too. Education is receiving a record \$1.9 billion dollars in state aid and special education funding in this biennium. This is not the year for new programs that require additional funds.

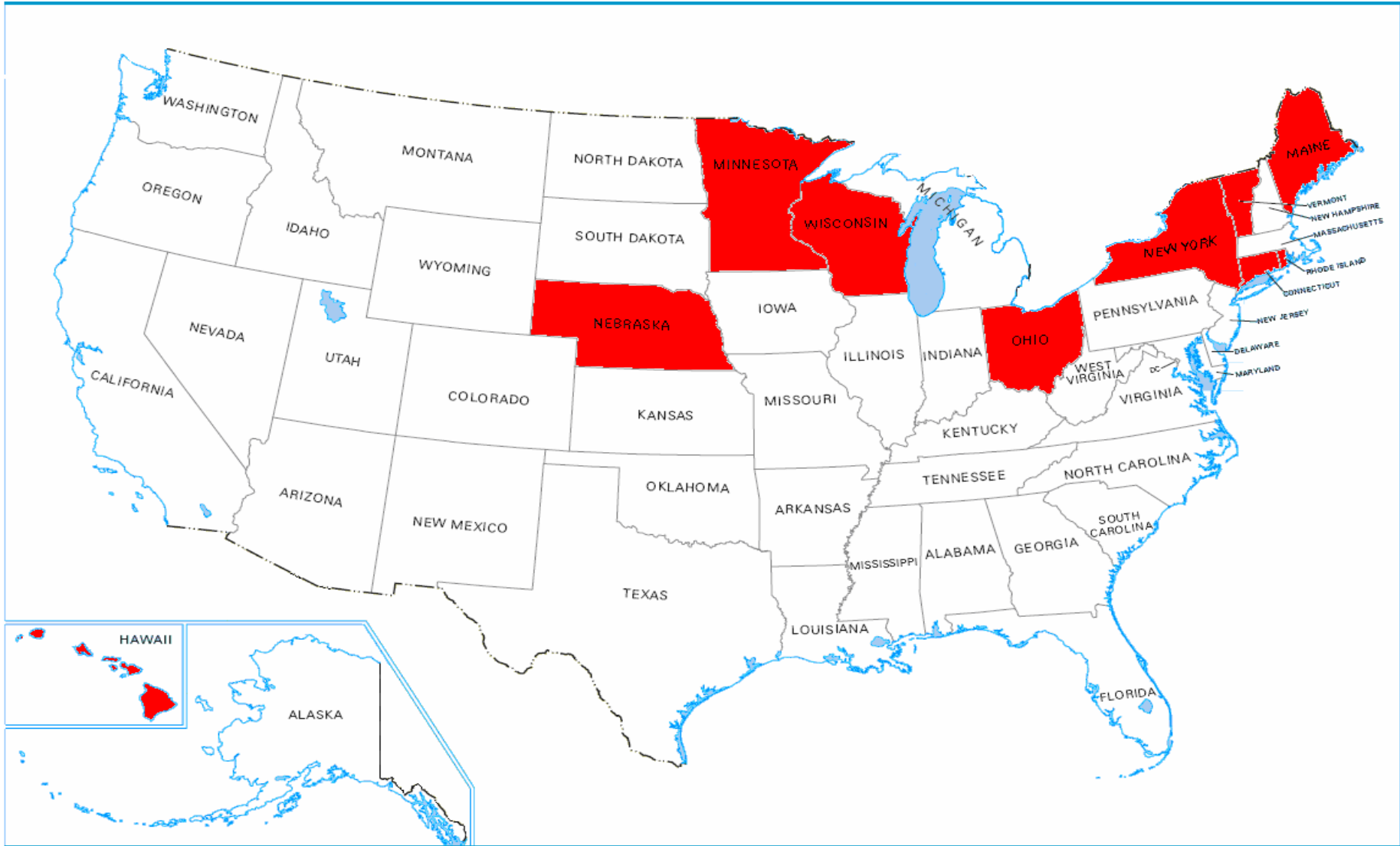
To Nebraska's elected officials at the local level, I need your help as well. Aid programs that offset local spending are receiving \$2.4 billion dollars in state funding for property tax relief, the most we've ever provided to local schools and local governments. I would like to ask you to follow my budget's example and restrain spending.

If we act now and are successful in moving Nebraska down the road to a more vibrant and dynamic economy, all segments of our state will grow. We will need more teachers. We will have created a better climate for business owners and entrepreneurs, and working families will find better jobs.

Ladies and gentlemen, we need to transform our high-tax state into a place where more Nebraskans can afford to raise a family. We need to create new and expanding job opportunities. We need to provide a climate that encourages businesses to grow. We need to create a state government that reflects the innovations of the 21st Century, and provides real tax relief for middle-class Nebraskans.

This session is a new beginning in Nebraska. We have historic opportunities before us, and the time has come to act. I look forward to standing shoulder-to-shoulder with you to accomplish these goals. God bless this great State, God bless its citizens, and God bless America. Thank you.

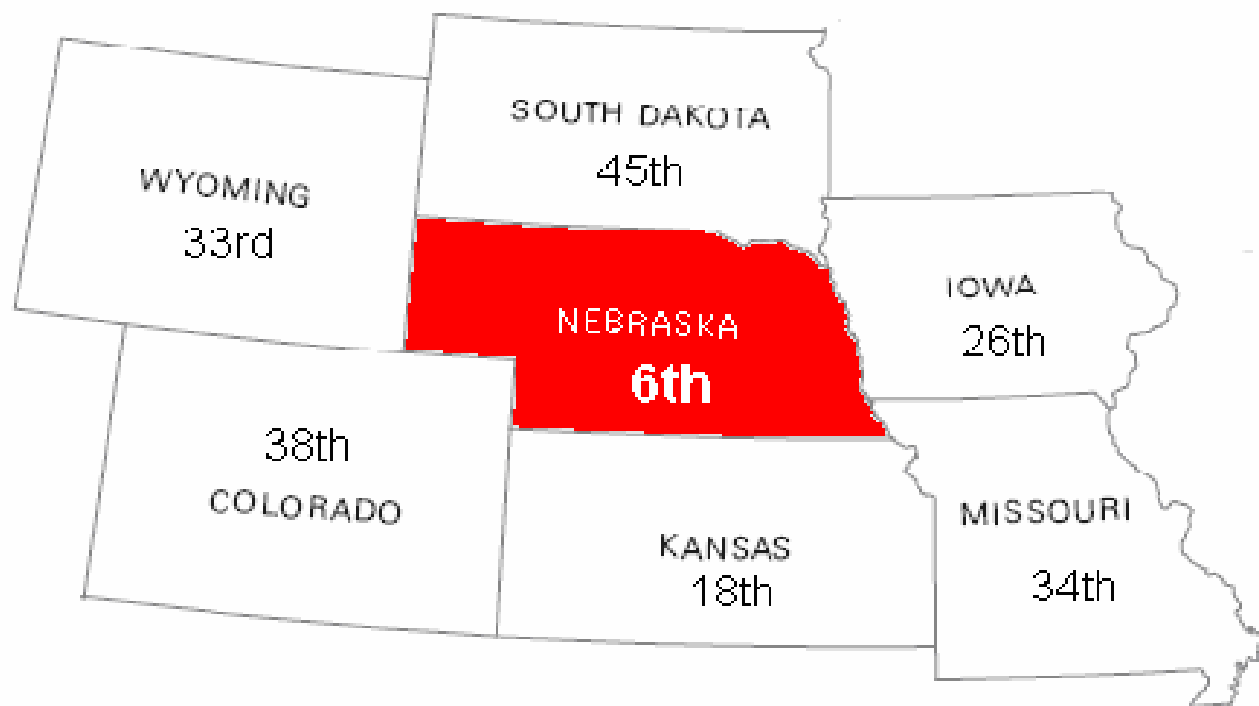
Nebraska is one of the top ten highest taxes states in the nation...



Top 10 Highest Tax Burden States *(State & Local Tax Burden as a Percentage of Personal Income)*

Source: Tax Foundation, 2006

Nebraska is a high tax state at a competitive disadvantage with our neighboring states...



(State & Local Tax Burden as a Percentage of Personal Income)
Source: Tax Foundation, 2006

Governor's 2007 Budget Priorities

- Stimulate Job Growth
- Lower Taxes
- Control Spending
- Provide Property Tax Relief
- *Other proposals:*
 - Restructure Nebraska's Health & Human Services System
 - Consolidate Property Assessment & Taxation under Nebraska Department of Revenue
 - Finance ethanol incentives
 - Address water challenges
 - Increase Nebraska's college-going rate
 - Fund Nebraska's Public Safety Communications System

Comparison of Current Income Tax Code (LB 968) with Governor's Tax Relief Proposal

(Incomes reflect Adjusted Gross Income)

Current Brackets

Brackets	Married, Filing Joint	Head-of-Household	Single	Marginal Tax Rate
1	\$0 - \$4,000	\$0 - \$3,800	\$0 - \$2,400	2.56%
2	\$4,000 - \$31,000	\$3,800 - \$25,000	\$2,400 - \$17,500	3.57%
3	\$31,000 - \$50,000	\$25,000 - \$35,000	\$17,500 - \$27,000	5.12%
4	Over \$50,000	Over \$35,000	Over \$27,000	6.84%

Proposed Brackets

Brackets	Married, Filing Joint	Head-of-Household	Single	Marginal Tax Rate
1	\$0 - \$32,000	\$0 - \$24,000	\$0 - \$16,000	3.07%
2	\$32,000 - \$90,000	\$24,000 - \$75,000	\$16,000 - \$45,000	5.12%
3	Over \$90,000	Over \$75,000	Over \$45,000	**See Below

Proposed Top Marginal Tax Rate **

Tax Year	Top Tax Rate
2007	6.84%
2008	6.60%
2009	6.25%
2010	5.95%

Changes:

- Eliminate a bracket by condensing four brackets to three.
- Expand brackets to reflect middle-class incomes.
- Lower top marginal rate incrementally over four years; from 6.84 percent in 2007 to 5.95 percent in 2010.
- Index brackets, beginning in 2011.
- Eliminate marriage penalty.

Proposal also includes elimination of Nebraska's estate tax and repeal of the sales tax on commercial construction and labor.